

**REPORT OF THE AUDIT OF THE
LIVINGSTON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LIVINGSTON COUNTY SHERIFF

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts has completed the Livingston County Sheriff's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$35 from the prior year, resulting in excess fees of \$19,182 as of December 31, 2008. Revenues increased by \$28,088 from the prior year and expenditures increased by \$28,053.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Fiscal Court And County Attorney Should Review The Sheriff's Mileage Reimbursement Policy
- Receipts Forms Should Be Issued In Accordance With KRS 64.840

Deposits:

The Sheriff's deposits as of December 31, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$20,129

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Christopher K. Lasher, Livingston County Judge/Executive
The Honorable Tommy Williams, Livingston County Sheriff
Members of the Livingston County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Livingston County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 23, 2009 on our consideration of the Livingston County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Christopher K. Lasher, Livingston County Judge/Executive
The Honorable Tommy Williams, Livingston County Sheriff
Members of the Livingston County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Fiscal Court And County Attorney Should Review The Sheriff's Mileage Reimbursement Policy
- Receipts Forms Should Be Issued In Accordance With KRS 64.840

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Livingston County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, cursive script.

Crit Luallen
Auditor of Public Accounts

July 23, 2009

LIVINGSTON COUNTY
TOMMY WILLIAMS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

Federal Receipts		\$	12,896
State - Kentucky Law Enforcement Foundation Program Fund			25,256
State Fees For Services:			
Finance and Administration Cabinet	\$	14,670	
Security Service		<u>3,436</u>	18,106
Circuit Court Clerk:			
Arrest Fees			2,627
Fiscal Court			3,655
County Clerk - Delinquent Taxes			544
Commission On Taxes Collected			157,374
Other Fees on Tax Collections			
10% Add on Fee			25,373
Fees Collected For Services:			
Auto Inspections		2,400	
Accident and Police Reports		2,543	
Serving Papers		20,160	
Carrying Concealed Deadly Weapon Permits		<u>1,480</u>	26,583
Other:			
Mental Health Transport		1,790	
Miscellaneous		<u>449</u>	2,239
Interest Earned			3,052
Borrowed Money:			
State Advancement			<u>57,250</u>
Total Revenues			334,955

The accompanying notes are an integral part of this financial statement.

LIVINGSTON COUNTY
TOMMY WILLIAMS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2008
(Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	87,872	
KLEFPF Pay		<u>25,180</u>	\$ 113,052

Materials and Supplies-

Office Materials and Supplies			3,040
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Auto Expense-

Mileage			62,998
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Other Charges-

Postage		476	
Uniforms		2,543	
Court Fees Paid to County		3,450	
Education		255	
Transporting Fugitives		422	
Miscellaneous		<u>1,626</u>	8,772

Capital Outlay-

Office Equipment			1,928
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Debt Service:

State Advancement			<u>57,250</u>
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Total Expenditures

<u>247,040</u>

Net Revenues

87,915

Less: Statutory Maximum

<u>68,733</u>

Excess Fees Due County for 2008

19,182

Payment to Fiscal Court - February 19, 2009

<u>19,182</u>

Balance Due Fiscal Court

<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

LIVINGSTON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LIVINGSTON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2008
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 33.87 percent for the first six months and 29.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Livingston County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Livingston County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On December 31, 2008 the Sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$20,129

LIVINGSTON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 4. Drug Forfeiture Account

The Livingston County Sheriff maintains a Drug Forfeiture Fund. The account is funded by court-ordered forfeitures of money or funds received from the sale of forfeited assets, interest received on deposits of forfeiture funds, as well as certain court-ordered contributions. The funds are to be used for various law-enforcement operations, equipment, and education. As of January 1, 2008, the Drug Fund had a balance of \$3,570. During the year, receipts from forfeitures, contributions, and interest totaled \$6,012, and disbursements of \$3,489 were made for law-enforcement equipment and support. A balance of \$6,093 remained in the drug fund at December 31, 2008.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Christopher K. Lasher, Livingston County Judge/Executive
The Honorable Tommy Williams, Livingston County Sheriff
Members of the Livingston County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Livingston County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated July 23, 2009. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Livingston County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Livingston County Sheriff's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Fiscal Court And County Attorney Should Review The Sheriff's Mileage Reimbursement Policy
- Receipts Forms Should Be Issued In Accordance With KRS 64.840

This report is intended solely for the information and use of management, the Livingston County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 23, 2009

COMMENTS AND RECOMMENDATIONS

LIVINGSTON COUNTY
TOMMY WILLIAMS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Livingston Sheriff's office has a lack of adequate segregation of duties. Due to a limited number of staff and the diversity of operations, the bookkeeper performs multiple tasks such as the collection of cash from customers, daily checkout procedures, deposit preparation, bookkeeping, the preparation of checks for disbursements, and bank reconciliations.

Segregation of duties over these tasks or the implementation of compensating controls when limited by the number of staff is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets and/or inaccurate financial reporting, we recommend the Sheriff segregate the duties noted above to the extent possible. For those duties that cannot be segregated due to a limited number of staff, strong oversight should be provided to the employee or employees responsible for those duties.

Sheriff's Response: The official did not respond.

STATE LAWS AND REGULATIONS:

The Sheriff Should Deposit Funds Intact On A Daily Basis

Audit procedures revealed that the Sheriff was not performing daily check-out procedures or making daily deposits. Instead, the Sheriff was performing check-out procedures and making deposits once, or sometimes twice a week. Under the authority of KRS 68.210, the Department for Local Government (DLG) has established requirements for all local government officials handling public funds. These requirements include "daily deposits intact into a federally insured banking institution". Also, Technical Audit Bulletin 93-002, Section 3 and Section 4, require the Sheriff to reconcile daily check-out sheets to daily deposits and to deposit all public funds received into an official bank account on a daily basis. As a result, we recommend the Sheriff perform daily check-out procedures. Such procedures should include reconciling the total amount of cash received per pre-numbered receipts to the cash drawer. Also, we recommend the Sheriff deposit all public funds received into his official fee account on a daily basis.

Sheriff's Response: The official did not respond.

LIVINGSTON COUNTY
TOMMY WILLIAMS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Fiscal Court And County Attorney Should Review The Sheriff's Mileage Reimbursement Policy

While conducting audit procedures on expenditures, the amount of sheriff's fees expended on mileage reimbursement to the Sheriff came to our attention. In calendar year 2008, \$62,998 was paid directly to the Sheriff for the use of personally owned and county-owned vehicles. Since 2005, the Sheriff has received \$213,906 in mileage reimbursement payments.

Under the current fiscal court policy for mileage reimbursement, the Sheriff is to receive the state mileage rate on vehicles he owns personally, normally five to seven police cruisers and \$0.05 less than the state mileage rate on the county-owned vehicle that he drives. Actual expenditures revealed that the Sheriff was paying himself \$0.03 less than the state mileage rate on personally owned vehicles and \$0.15 less than the state mileage rate on the county-owned vehicle.

Regardless of the mileage rate paid to the Sheriff, we believe there are certain problems with the county's current policy for mileage reimbursement. Our first concern is the payment of mileage reimbursement to a single person for a fleet of cars. It is our belief that IRS code only allows mileage reimbursement to an individual for one vehicle. Our second concern is the mileage reimbursement to the Sheriff for a county-owned vehicle. According to the Sheriff's records, the county-owned vehicle provided to him was driven 7,036 miles in calendar year 2008. The mileage reimbursement paid to the Sheriff on this vehicle was \$2,313 with gas receipts only totaling \$1,213, for a total variance of \$1,100. It is this variance between the amount paid for mileage reimbursement and actual expenses incurred that causes our concern and belief that the current policy is inefficient and a poor use of public funds. In addition, the possible profit that the Sheriff received from managing his office vehicle fleet could be interpreted to be in excess of his statutory maximum salary.

Because of the concerns in the preceding paragraph, we recommend the Fiscal Court and County Attorney review the current mileage reimbursement policy. We recommend the Fiscal Court investigate more efficient ways to provide transportation to the Sheriff and his deputies. We also recommend the County Attorney and the Ethics Commission review and opine on whether or not such a policy is acceptable.

Sheriff's Response: The official did not respond.

Receipts Forms Should Be Issued In Accordance With KRS 64.840

We noted during audit testing of daily receipts, receipts are issued for payments in duplicate form. According to KRS 64.840, receipts should be issued for payment of fine, forfeiture, tax, or fee, with one (1) copy of the receipt to be given to the person paying the fine, forfeiture, tax, or fee, one (1) copy to be retained by the official for his own records, and one (1) copy to be retained by the official to be placed with the daily bank deposit. We recommend the Sheriff's office prepare receipts in triplicate to comply with KRS 64.840.

Sheriff's Response: The official did not respond.

